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SIPDIS

SENSITIVE

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SUBJECT: 6 August 2005 Meeting with Dr. Mohsin Shalash, Minister of Electricity and IRMO Director, Daniel Speckhard

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11. (U) SUMMARY. On 6 August 2005, Dr. Mohsin Shalash, Minister of Electricity, IRMO Director Speckhard and Senior Advisors met to discuss how IRMO can assist the Ministry of Electricity (ME) to alleviate its immediate energy and security issues. Shalash discussed a number of issues, which lead to a severe and somewhat sustained decline in hours of power in Baghdad. Recent interdictions have created extensive damage to the transmission lines, leading to a loss of about 600 MW of power (~5-6 hours of power) particularly to the Baghdad area. He believes the infrastructure security needs to be strengthened. Complicating this issue is Shalash's desire to replace the head of ME's Electrical Power Security Services (EPSS), a force of 7,000. In addition, Shalash discussed the failure of the Basra and Nasiriyah governorates to honor power transfer agreements and provide 200 MW of power (~1-2 hours of power) to the Baghdad area. Shalash believes the impact of these two issues that occurred at the same time could have been mitigated by sufficient fuel supply for Baghdad area power plants. Shalash stressed the need for an alternative solution to their existing dependency on the Ministry of Oil (MoO). Finally, the need for funds through other donors and revenue generation through tariffs were discussed as USG donor funds are being depleted rapidly. END SUMMARY.

12. (SBU) Infrastructure Security and Interdictions. The security situation was a subject at the forefront in the meeting. The need to develop the electricity infrastructure security is crucial at this stage, as the recent escalation in the magnitude of interdictions has critically damaged transmission lines to a precarious level. The drastic drop in hours of power in Baghdad from 12 hours to 4 hours is the result of repeated interdictions on the Bayji to Baghdad West #1 & #2 lines, which provides as much as 600 MW of power. Minister Shalash stressed the need for coordination between Iraqi and Coalition forces in order to increase security on key transmission line corridors and not to exclude the use of aerial surveillance. Complicating and exacerbating this is Shalash's intention to terminate Director General Faris, the head of EPSS, along with ten to fifteen members of Faris's staff within the next two weeks. Faris's replacement, selected by the Minister to be General Sa'ad Hashim, has extensive prior experience in protecting the electricity infrastructure. However, this information has leaked and Sa'ad has been threatened on a number of occasions by EPSS. Both the Minister and US personnel fear retaliation from Faris and his extensive supporters within EPSS. As a temporary solution, the Minister requested military support to identify and position rapid response coalition forces to be deployed at ME headquarters or other key ME static sites around Baghdad. For the short term, IRMO Electricity requests that coalition forces remain on site at ME facilities while they are present. The Minister is currently working with the Prime Minister's office to develop a strategy that will allow General Sa'ad to replace DG Faris. The Minister has also requested support in securing weapons and equipment recently provided to EPSS under an IRRF-funded training and equipment contract.

13. (SBU) Power Sharing. Further impacting hours of power has been the failure of the South to honor its obligation to transfer power to Baghdad. Minister Shalash recently visited the National Dispatch Center (NDC) to address this issue and assess the NDC operation. At the NDC, the Minister personally contacted and convinced the Governor of Al Anbar Province to increase power transfer to Baghdad by 50 MW. He also contacted the Governor of Basra to increase the power transfer to 100 MW. The Governor of Basra failed to comply with the Minister's request, which, when combined with the interdicted transmission lines, led to Baghdad hours of power decreasing to 4 hours per day between July 29 and August 6, while Basra enjoyed 18 hours. The Minister was unable to successfully contact the Governors of Hillah and Nasiriyah to ask for similar power transfer support. Following his assessment of the NDC, the Minister has

decided to replace some personnel at the NDC, citing incompetence. To further tackle the power sharing issue, a meeting is planned to take place in the near future with the Prime Minister (PM) who will lead a discussion between governors, ministers, local and regional leaders. The Minister will ask the PM to clarify whether ultimate authority lies with the governorates or centrally with the ME. Shalash also intends to ask the PM to order the governors and local councils to cooperate and comply with the power-sharing plan as developed by the ME. The ME hopes to advance a power-sharing plan designed to provide equitable power with a goal of at least 12 hours of power per day across all of the governorates for the summer. Meeting this goal was progressing successfully until the recent interdictions to transmission line and the obstruction to power transfer from the South to Baghdad.

14. (SBU) Fuel Supply. Shalash also stated a need to mitigate the dependency of the ME on MoO for fuel as well as the need to explore options for more efficient sources of fuel supply. Shalash recently met with the Minister of Oil to assess the availability of natural gas for the next two to three years in order to evaluate the potential for the development of new gas combustion power stations at strategic locations. At that meeting, the Minister of Oil admitted that no additional gas would be available in the next two to three years unless oil production increased to allow for the collection and distribution of associated natural gas. Shalash would therefore like to explore, with donors, opportunities to develop gas fields and to site natural gas power stations on these fields. Shalash is of the opinion that the Ministry of Oil is paralyzed and is incapable of partnership in the execution of such key projects. The emergence of the Electricity Sector Working Group, announced during last week's Baghdad Coordination Group meeting and expected to meet next week, couples interested donors and Iraqi leaders and can serve as an important forum for the Minister to raise this problem.

15. (SBU) Funding and Tariffs. Finally, Shalash expressed the need for further funding, as USG donor funds are depleting rapidly. He explored the possibility of the USG providing additional funds for the Electrical infrastructure through soft loans, similar to the way other countries are providing this support. As an example, the Minister discussed soft loans available to Iraq from Iran, Germany and Japan summarized below:

- Iran has promised \$1 Billion USD in soft loans
- Germany has promised 1 Billion Euros in soft loans
- Japan has promised \$3.5 Billion USD in soft loans

16. (SBU) In addition to funding projects and its operation through donor funds, the need for the ME to generate revenue through the increase of tariffs was also discussed. In order to successfully implement an increase of tariffs, Shalash strongly believes that all subsidies for food, refined products and electricity should begin to be phased out later in 2005, a direction for which he will continue to advocate with the PM. He also believes that a public relations campaign must be developed to explain to the population the reason for and the manner in which the subsidies will be phased out. Shalash also stated he did not believe the Coalition effort had resulted in any real megawatt contribution. IRMO Director Speckhard and IRMO Electricity Senior Advisors objected to this comment and perception. The Senior Advisors agreed to provide Shalash with factual information to clearly show the contributions made by the Coalition.

KHALILZAD